Vijaya Diagnostic Centre | BUY

JM FINANCIAL

The 'PH' scale

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Vijaya acquired Pune-based P H Diagnostic Centre ('PH') for a cash consideration of ~INR 1.48bn (including INR 128mn towards payment of debt). PH is Pune's largest B2C-focused integrated diagnostic chain and is culturally aligned with Vijaya in many ways (B2C oriented, similar margin profile, etc.). The acquisition multiples (~3.5x FY23 sales; ~9x EBITDA) are reasonable, in our view. We believe this acquisition is positive for Vijaya as: (1) It is marginally EPS accretive; and (2) helps Vijaya diversify from the AP-Telangana region. After delivering high double-digit revenue growth pre-Covid, FY21-23 growth moderated due to lack of network expansion. Vijaya will focus on expanding collection centres, adding new modalities (PET CT and specialised tests); it will initially operate under the PH brand and will switch to a co-branding model subsequently. The management is in the process of recalibrating its capex strategy and will provide further updates later. While the near term upside seems limited, Vijaya's rapid expansion (outside Hyderabad) with faster break-evens, margin sustenance, sharp B2C focus, and healthy cash flows provide a long runway to growth. We maintain BUY with a Dec'24 TP of INR 665.

- **Contours of the deal:** Vijaya will pay a cash consideration of INR 1.48bn (including INR 129mn towards debt repayment) for 100% stake in P H Diagnostic Centre ('PH'). On a revenue base of INR 416mn and margins similar to that of Vijaya, this translates to ~3.5x FY23 sales and ~9x EBITDA, which is quite reasonable, in our view. As of Sep '23, Vijaya's cash balance was INR 2.9bn, and we believe there is sufficient room for more acquisitions. The acquisition is positive in our view as: (1) It is marginally EPS accretive; and (2) helps Vijaya expand beyond AP-Telangana in a fast-growing Pune market.

- **PH - a good fit:** PH is Pune's largest B2C-focused integrated diagnostic chain with a long and rich legacy. It was founded by Dr Hemanth Dhoka in 2001, who will continue to support this business and facilitate smooth transition. PH is, in many ways, similar and culturally aligned to Vijaya – they have a similar margin profile, 85-90% B2C revenue, radio-patho integrated offering, 15% wellness share, etc. At present, PH has three hub centres (average revenue ~INR 110mn+ each), three spoke centres (~INR 25mn+ each) and 16 sample collection centres (~INR 2mn+ per centre). PH has one NABL certified processing lab – which is sufficient to fulfil demand of the next few years. Vijaya will add more collection centres, new modalities (PET CT and specialised testing) in a staggered manner despite which margins could remain ~40% (+/-2%). The pricing in Pune market is similar to Hyderabad. PH's FY21-23 revenue growth has been in high single digits due to lack of network expansion. The management clarified that the pre-Covid growth was in high double digits owing to significant network expansion (two hubs and many collection centres have been opened post 2015). This implies minimum replacement capex as of now. The company's centres are on lease – average lease tenure is 5 years (+5) and Vijaya plans to renegotiate for longer tenures (like 15 years in case of Vijaya). The annual lease rental is expected to be ~INR 35mn.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	665
Upside/(Downside)	2.7%
Previous Price Target	630
Change	5.6%

Key Data – VIJAYA IN	
Current Market Price	INR647
Market cap (bn)	INR66.2/US$0.8
Free Float	45%
Shares in issue (mn)	101.9
Diluted share (mn)	102.0
3-mon avg daily val (mn)	INR216.9/US$2.6
52-week range	686/349
Sensex/Nifty	70,865/21,255
INR/US$	83.3

Price Performance

%	1M	6M	12M
Absolute	4.1	36.9	35.3
Relative*	-3.1	22.7	16.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,624	4,592	5,423	6,671	7,705
Sales Growth (%)	22.7	-0.7	18.1	23.0	15.5
EBITDA	2,037	1,820	2,186	2,768	3,221
EBITDA Margin (%)	44.1	39.6	40.3	41.5	41.8
Adjusted Net Profit	1,107	852	1,232	1,545	1,882
Diluted EPS (INR)	10.9	8.4	12.1	15.2	18.5
Diluted EPS Growth (%)	30.3	-23.0	44.6	25.4	21.8
ROIC (%)	30.9	22.9	25.5	26.1	30.0
ROE (%)	26.8	16.8	20.9	22.1	22.5
P/E (x)	59.6	77.4	53.5	42.7	35.1
P/B (x)	14.1	12.1	10.4	8.7	7.2
EV/EBITDA (x)	32.1	35.4	30.0	23.3	19.7
Dividend Yield (%)	0.2	0.2	0.5	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 21/Dec/2023

Exhibit 1. Network details

Type of Facility	Services Available	Count
Hubs	Sample collection, Ultrasound, X Ray, 2D Echo, BMD, MRI, CT etc.	3
Spokes	Sample collection, Ultrasound, X Ray, 2D Echo etc.	3
Collection Centres (Company run)	Sample collection only	12
Collection Centres (Franchisee)	Sample collection only	4
Total customer facing centres		22
Processing Laboratory		1

Source: Company, JM Financial

Exhibit 2. Vijaya and PH are aligned in many ways

Revenue Mix %	VIJAYA	P H
Radiology	36%	~ 43% - 47%
Pathology	64%	~ 53% - 57%
Wellness Mix %	13%	~ 14% - 16%
B2C Rev Mix %	95%	~ 85% - 90%

Source: Company, JM Financial

Exhibit 3. Revenue break-up

Type of centre	Current annual revenue rate per centre
Hubs	~ INR 110 Mn +
Spokes	~ INR 25 Mn +
Collection & Franchisee Centres	~ INR 2 Mn +

Source: Company, JM Financial

Exhibit 4. Deal structure

Particulars	Amount (INR mn)
Consideration for 100% Equity Shares (Secondary)	1,347
Payment towards Debt in the Target	128
Total Cost of acquisition of the Target	1,475

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,624	4,592	5,423	6,671	7,705
Sales Growth	22.7%	-0.7%	18.1%	23.0%	15.5%
Other Operating Income	0	0	0	0	0
Total Revenue	**4,624**	**4,592**	**5,423**	**6,671**	**7,705**
Cost of Goods Sold/Op. Exp	715	589	656	834	986
Personnel Cost	707	785	906	1,087	1,233
Other Expenses	1,165	1,398	1,676	1,981	2,265
EBITDA	**2,037**	**1,820**	**2,186**	**2,768**	**3,221**
EBITDA Margin	44.1%	39.6%	40.3%	41.5%	41.8%
EBITDA Growth	22.7%	-10.6%	20.1%	26.7%	16.3%
Depn. & Amort.	527	617	535	666	690
EBIT	1,510	1,203	1,650	2,102	2,531
Other Income	128	142	212	197	257
Finance Cost	165	209	230	253	279
PBT before Excep. & Forex	1,474	1,135	1,632	2,046	2,509
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,474	1,135	1,632	2,046	2,509
Taxes	367	283	400	501	627
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,107	852	1,232	1,545	1,882
Adjusted Net Profit	**1,107**	**852**	**1,232**	**1,545**	**1,882**
Net Margin	23.9%	18.6%	22.7%	23.2%	24.4%
Diluted Share Cap. (mn)	102.0	102.0	102.0	102.0	102.0
Diluted EPS (INR)	**10.9**	**8.4**	**12.1**	**15.2**	**18.5**
Diluted EPS Growth	30.3%	-23.0%	44.6%	25.4%	21.8%
Total Dividend + Tax	102	102	306	306	357
Dividend Per Share (INR)	1.0	1.0	3.0	3.0	3.5

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	4,682	5,447	6,366	7,597	9,111
Share Capital	102	102	102	102	102
Reserves & Surplus	4,580	5,345	6,264	7,495	9,009
Preference Share Capital	0	0	0	0	0
Minority Interest	13	19	27	35	45
Total Loans	6	0	0	0	0
Def. Tax Liab. / Assets (-)	0	0	0	0	0
Total - Equity & Liab.	**4,702**	**5,466**	**6,393**	**7,632**	**9,156**
Net Fixed Assets	4,045	5,516	7,456	7,790	8,100
Gross Fixed Assets	5,602	7,752	10,227	11,227	12,227
Intangible Assets	14	22	22	22	22
Less: Depn. & Amort.	-1,911	-2,528	-3,064	-3,730	-4,419
Capital WIP	341	271	271	271	271
Investments	543	1,390	390	390	390
Current Assets	2,546	1,627	1,535	2,493	3,754
Inventories	43	20	54	57	61
Sundry Debtors	98	95	149	146	106
Cash & Bank Balances	110	242	62	1,020	2,317
Loans & Advances	0	0	0	0	0
Other Current Assets	2,295	1,270	1,270	1,270	1,270
Current Liab. & Prov.	2,433	3,068	2,988	3,042	3,088
Current Liabilities	1,920	2,612	2,533	2,586	2,632
Provisions & Others	513	456	456	456	456
Net Current Assets	113	-1,441	-1,454	-549	666
Total – Assets	**4,701**	**5,466**	**6,393**	**7,632**	**9,156**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	1,474	1,135	1,632	2,046	2,509
Depn. & Amort.	527	617	535	666	690
Net Interest Exp. / Inc. (-)	54	111	230	253	279
Inc (-) / Dec in WCap.	-67	90	-167	53	83
Others	-9	-46	0	0	0
Taxes Paid	-399	-262	-400	-501	-627
Operating Cash Flow	**1,580**	**1,646**	**1,832**	**2,517**	**2,933**
Capex	-1,223	-1,248	-2,475	-1,000	-1,000
Free Cash Flow	357	398	-643	1,517	1,933
Inc (-) / Dec in Investments	-17	0	1,000	0	0
Others	10	153	0	0	0
Investing Cash Flow	**-1,231**	**-1,096**	**-2,475**	**-1,000**	**-1,000**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	-102	-306	-306	-357
Inc / Dec (-) in Loans	-59	-6	-230	-253	-279
Others	-247	-311	0	0	0
Financing Cash Flow	**-306**	**-419**	**-536**	**-559**	**-636**
Inc / Dec (-) in Cash	**44**	**131**	**-1,180**	**958**	**1,297**
Opening Cash Balance	66	110	241	61	1,019
Closing Cash Balance	110	241	-939	1,019	2,316

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	23.9%	18.6%	22.7%	23.2%	24.4%
Asset Turnover (x)	0.8	0.6	0.7	0.7	0.7
Leverage Factor (x)	1.4	1.4	1.4	1.3	1.3
RoE	26.8%	16.8%	20.9%	22.1%	22.5%

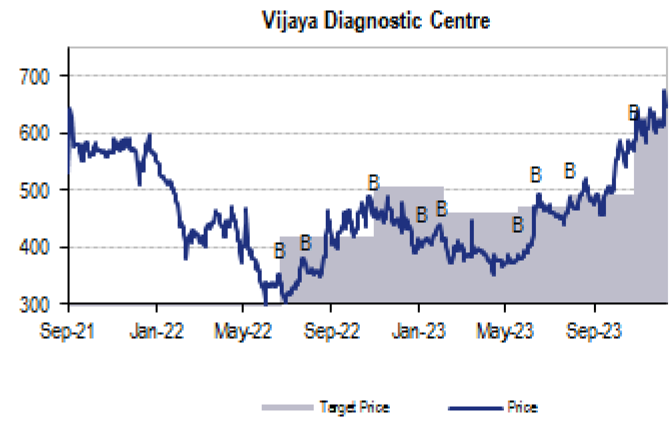
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	45.9	53.4	62.4	74.5	89.4
ROIC	30.9%	22.9%	25.5%	26.1%	30.0%
ROE	26.8%	16.8%	20.9%	22.1%	22.5%
Net Debt/Equity (x)	-0.1	-0.3	-0.1	-0.2	-0.3
P/E (x)	59.6	77.4	53.5	42.7	35.1
P/B (x)	14.1	12.1	10.4	8.7	7.2
EV/EBITDA (x)	32.1	35.4	30.0	23.3	19.7
EV/Sales (x)	14.1	14.0	12.1	9.7	8.2
Debtor days	8	8	10	8	5
Inventory days	3	2	4	3	3
Creditor days	31	36	22	24	24

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Jul-22	Buy	420	
10-Aug-22	Buy	419	-0.2
11-Nov-22	Buy	505	20.5
17-Jan-23	Buy	505	0.0
15-Feb-23	Buy	460	-8.9
30-May-23	Buy	470	2.2
25-Jun-23	Buy	470	0.0
10-Aug-23	Buy	493	4.9
8-Nov-23	Buy	630	27.8

Recommendation History



APPENDIX I

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